

Employer Responsibility for Limit Testing in 2004

Limits on Tax-Deferred Plans Generally

All tax-deferred retirement plans are subject to limits on the amount of compensation that can be deferred or otherwise contributed by or on behalf of a participant. When an employer offers multiple plans or vehicles for retirement savings, including 457 plans, 403(b) plans and 401(k) plans, care must be taken to coordinate the various applicable limits.

Elective Deferral (402(g)) Limits for 2004

Plan Type	Amount	Catch-up	Coordination
401(k)	\$13,000	\$3,000	No coordination with 457.
457	\$13,000	\$3,000	No coordination with 403(b) or 401(k)
403(b)	\$13,000	\$3,000	No coordination with 457

These limits will increase over the next two years as follows:

Year	Elective Deferral	Catch-up
2005	\$14,000	\$4,000
2006	\$15,000	\$5,000

After 2006, the deferral may be adjusted for inflation annually in \$500 increments.

Coordination Between Plans

Participants may contribute the maximum contribution into both a 401(k) and a 457 plan, or a 457 plan and 403(b) plan (up to \$26,000, or \$32,000 if age 50 in 2004), but they must coordinate the limits if contributing to a 401(k) and a 403(b) and may generally only contribute a total of \$13,000 (\$16,000 if age 50) between both plans.

Catch-Up Provisions

Participants may contribute an additional \$3,000 to a 457 and either a 403(b) or a 401(k) if he/she is at least 50 years of age during 2004.

If you offer a 457, your plan may provide for additional catch-up provisions in the three years immediately preceeding normal retirement. Check with your 457 plan administrator. There is no longer coordination between the PERSI 401(k) and 457 plans.

The 403(b) also has its own additional catch-up provision called the "15-year rule." This special catch-up provision may allow certain participants to increase their annual contribution by up to \$3,000 more than the current \$13,000 limit (as of 2004). Check with your 403(b) provider for

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more details. Remember that 403(b) contributions must be coordinated with 401(k) contributions

Annual Additions (415(c)) Limits

An employer may choose to match a participant's contributions to any 401(k) or 403(b) plans. In a 401(k) plan or 403(b) plan, the employer contribution, together with any voluntary contributions made by the participant, may not exceed the participant's gross salary or \$41,000, whichever is less. The 415 limits are not applicable to 457 plans, which generally cannot receive employer contributions.

Questions on Limits

Because limit questions can be complicated, particularly when a member contributes to multiple plans, PERSI encourages members and employers to consult qualified tax professional to ensure all applicable limits are not exceeded.

If you are unable to resolve questions, please contact PERSI. Although PERSI can provide limited direction and assistance, the member and employer are ultimately responsible for assuring limits are not exceeded. Failure to comply with limits can result in penalties against both participants and the employer.

New PERSI Member Handbooks to be mailed to members' homes this summer



Every two years, PERSI updates our Member Handbook and distributes it to all active members.

Now that you provide us with member addresses, we will mail the handbooks directly to members' homes or address of record to save you the work of distributing them. The mailing is expected to occur in early August. Please be sure to have addresses as current as possible on your transmittal.

Beginning in August, employers may request supplies of handbooks to have on hand for new employees by contacting Betsy Griffith at bgriffit@persi.state.id.us or 287-9297.